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STATE PASS USTR, EAP/J, NSC - JIM LOI

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SUBJECT: THE DPJ ELECTION MANIFESTO: POTENTIAL NEW JAPANESE MARKET OPPORTUNITIES AND CHALLENGES

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11. (SBU) SUMMARY. The Democratic Party of Japan (DPJ) released its election "manifesto" (platform) on July 27 intend to highlight the party's efforts to reform and revitalize the Japanese economy and its social safety net. The 55-point election manifesto includes no new economic or social safety net proposals, nor does it clarify how a DPJ government would pay for its JPY 16.8 trillion yen in projects. Thus, questions remain as to the ability of the party to finance all of the promises it is making (septel). Several of the DPJ's proposals, if they are fully-funded and implemented, could offer U.S. companies new market access possibilities but also some potential new challenges. The American Chamber of Commerce in Japan (ACCJ) Board of Governors has generally welcomed the DPJ's economic proposals. However, the agriculture support proposals are potentially damaging to U.S. exports and raise serious WTO questions. The party's ability to gain greater trust from the Japanese business community and electorate in the year ahead, should it win the election and become the ruling party, rests on its ability to implement its economic campaign promises and revive the Japanese economy. END SUMMARY.

12. (SBU) The basic thrust of the DPJ's election manifesto could be described as economic populism. Examples include the proposal to establish a JPY31,000/year child allowance or free breast and cervical cancer screening for women. Further examples include a proposal to support farm commodities via direct payments to farmers. The child allowance could stimulate consumption and improve sales for U.S. companies if consumers increase expenditures on durables and non-durable items. Investment analysts have noted a recent increase in shares of firms related to baby products as the market anticipates increasing demand for such goods.

13. (SBU) Embassy Tokyo reviewed the DPJ's 55-point manifesto to determine where potential American business opportunities exist should a DPJ government win the August 30 election. We also provide analysis of proposals that could negatively impact American trade with Japan should the DPJ implement its campaign pledges.

U.S.-JAPAN EPA AND ASIAN REGIONAL INTEGRATION

14. (SBU) The DPJ's manifesto calls for the conclusion of a U.S.-Japan Free Trade Agreement and further deepening of ties with Asian neighbors, including through the Asia Pacific Economic Cooperation forum. However, the party's platform includes contradictory policies that would impede Japan's ability to conclude a bilateral FTA with the U.S. On the one hand, the DPJ recognizes both Japanese and U.S. private sector calls for and the importance of concluding a bilateral FTA as a way to strengthen U.S.-Japan relations and to reform trade and investment. However, the DPJ also calls for the establishment of a direct payment system where each farmer and rancher will be entitled to subsidies that compensate for

the losses caused by the difference between production costs and sales prices. Depending on implementation, it could raise WTO Agreement issues with respect to Japan's agriculture subsidies and may impede needed agricultural reforms in Japan. Implementation of this approach could also complicate Japan's ability to engage meaningfully in Asian regional trade initiatives such as the FTAAP.

¶5. (SBU) The DPJ manifesto also calls for the creation of a Food Safety Agency in charge of risk management. The DPJ would consolidate the MAFF and MHLW food safety related sections while strengthening the function of the Food Safety Commission. The objective, which could injure competitive U.S. agricultural exports, includes the establishment of: the Food Traceability System to verify the product history from farm to table; the expansion of the scope of mandatory COOL labeling to include processed products; the deployment of food safety officers to major exporting countries; the resurrection of the subsidy for domestic BSE blanket cattle testing; and the strengthening of beef import controls (from BSE countries) including total (country-wide) import suspension in the event of a violation. Taken together, these measures, if implemented, appear to create new obstacles for U.S. agricultural trade and would also undermine the feasibility of U.S.-Japan FTA negotiations.

WALKING BACK FROM POSTAL PRIVATIZATION

¶6. (SBU) The DPJ manifesto also calls for the "fundamental review" of the postal services in order to increase the "convenience for the people." Specifically, it calls for: (1) the passage of a bill to freeze the sale of the stocks of Japan Post Holdings, Japan Post Insurance and Japan Post Bank (IPO freeze bill), as soon as possible; and (2) review of the current "4-company structure" of the

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Japan Post group and reconstructing a system which ensures universal service of all of the services offered at post offices, and in doing so; (3) ensuring that the three postal services (mail delivery, postal savings and postal insurance) are offered in an "integrated/unified manner".

¶7. (SBU) These modifications would be a significant reversal from the basic framework laid out in the postal privatization laws if implemented. Furthermore, private sector competitors would be placed at a significant competitive disadvantage if the postal entities were allowed to expand their businesses without any restraints while any plans for privatization are stalled. It would also raise concerns with Japan's ability to create a level-playing field with private sector competitors and possibly the transparency of the process.

¶8. (SBU) Ironically, postal privatization was the focus of the snap election called by former Prime Minister Koizumi in 2005, which resulted in an overwhelming victory for the LDP in the Lower House (more than 2/3rds), and it served as the "symbol" of the Koizumi reforms. The mood for walking back the Koizumi-reforms, with claims that they have been too market-oriented, has grown in recent years, and the "unprecedented referendum" in favor of postal privatization expressed by the people only four years ago will be tested in the August 30 election.

DEEPER CO2 REDUCTIONS, EXPANDED RENEWABLE BUYBACK SCHEME

¶9. (SBU) The DPJ Manifesto calls for cutting CO2 emissions to 25% below 1990 levels (which equates to a 31% reduction below 2005 levels) by 2020. The mid-term target far exceeds the 15% cut below 2005 levels that Prime Minister Aso announced in June. To achieve this the DPJ proposes to (1) establish an emissions trading system, a platform shared by the ruling party; (2) expand the solar power buyback scheme METI is currently implementing to include additional renewable energy sources such as wind and biomass; and (3) introduce a tax on greenhouse gas emissions.

¶10. (SBU) Industry organizations such as the Keidanren and the Japan Iron and Steel Federation have criticized the DPJ's reduction target as impossible to achieve in the face of fierce global competition. METI officials and DPJ politicians with expertise in energy and

environmental policy have suggested in recent discussions the DPJ may adopt a less ambitious target once it faces the realities of governing. Nevertheless some investment analysts view the DPJ stance as boding well for environmental technologies which could result in market opportunities for U.S. firms.

ASSISTANCE TO SMALL AND MEDIUM-SIZED
ENTERPRISES (SMES)

¶11. (SBU) The DPJ, which is focused on the fate of small and medium-size companies, proposes to assist these SMEs (companies with less than ¥100 million of stated capital) by reducing the applicable corporate tax rate from 18 to 11 percent for two years. This revision aims to provide greater tax relief than the GOJ's FY-2009 tax revision for SMEs, which reduced the tax on an annual return of up to ¥8 million from 22 percent to 18 percent. Because over 67% of Japanese companies (according to a National Tax Agency survey) are not paying any tax because they are in deficit, and given the limited amount of the abatement, further reduction of the tax rate for SMEs is unlikely to promote substantial growth in capital investment. Additionally, few U.S. companies doing business in Japan or considering entering the market fall into the SME category, so there is likely little economic benefit for American firms.

¶12. (SBU) COMMENT: If the DPJ becomes the ruling party following the August 30 Lower House elections, the Japanese public will have a clear 55-point score card to grade the party on its ability to implement its policy proposals, particularly its economic proposals. There are potential market opportunities for U.S. companies in green technologies/energy, but these are balanced out by potentially market distorting policies in postal privatization and agriculture. Assessing a grade to the DPJ's manifesto is presently difficult because the party does not yet know the bureaucratic and fiscal constraints it will operate under if it wins the upcoming election. These "brakes," and a better understanding of the negative repercussions of some of its proposals (reversing postal privatization and ill-planned agricultural reform), may result in revisions to some of the more ill-conceived plans in the manifesto.

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¶13. (SBU) The ACCJ Board of Governors has assessed positively the DPJ's general economic platform in recent meetings with Emboffs, noting that the party's thinking has generally matured as its chances of governing become more realistic. However, some have also questioned whether the DPJ will be able to cultivate a pool of economic experts from outside the party to implement its policies, similar to the role Heizo Takenaka performed in the Koizumi cabinet.
END COMMENT.

ZUMWALT